LETTER from Messrs. **J. P. Morgan & Co.,** in response to the invitation of the Sub-Committee (Hon. A. P. Pujo, Chairman) of the Committee on Banking and Currency of the House of Representatives.

NEW YORK CITY
February 25, 1913

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To Honorable A. P. Pujo, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

Dear Sir:

You have invited us to supplement the recent inquiry of your Committee by presenting " such considerations as may occur to you (us) bearing upon the question of concentration and control of money and credit."

In presenting such considerations we find it necessary to revert to the original Preamble and House Resolution No. 504, under which your Committee acts and at the outset to suggest that, in the main, the conditions described in the Preamble and Resolution, as possibly existing and as calling for investigation and remedy, do not and cannot exist in this or in any other country. We would suggest further, with the utmost respect, that a large part of the valuable time of your Committee, in our belief, has been consumed in an endeavor to piece out a certain theory as to money and credit, which theory it will be impossible ever to demonstrate; for its establishment is, and always will be, prevented by economic laws which have operated ever since the beginning of barter and trade.

BANKING SYSTEM AT FAULT

We suggest to you that such ills—and they are neither few nor trifling—as are existent in this country's financial affairs are the outcome of a clumsy and outworn banking system rather than of the schemes of men; and that to eradicate such ills at their source, there is needed not legislation upon some one or more isolated symptoms, but rather a careful diagnosis of our whole banking system; a study of the successful systems of other countries which for decades have been free from the periodic panics which have distressed this country; and finally co-operation among all committees in Congress which consider this subject, to the one end of wise and comprehensive—as contrasted with piecemeal—legislation.

In the following considerations, which we offer with respect and with an earnest desire to co-operate with your Committee, we have not hesitated to quote from, and comment upon the Resolution under which your Committee has acted, the language of that Resolution in its assumptions being so extraordinary, and in its intimations so unprecedented, as to call for especial examination. But again we must beg you to believe that the offered comment and suggestion are given with due respect and because of our profound conviction of the importance of the whole general subject.

In the statement submitted to you at the close of his testimony by Mr. H. P. Davison of our firm, we ventured to point out to you that such "concentration"

as has taken place in New York and other financial centres has been due, not to the purposes and activities of men, but primarily to the operation of our antiquated banking system which automatically compels interior banks to "concentrate" in New York City hundreds of millions of reserve funds; and next, to economic laws which in every country create some one city as the great financial centre, and which draw to it, in enormous volume, investment funds for the development of industrial enterprises throughout the country.

SUPPLY AND DEMAND THE FACTOR

Just as grain and cotton and manufactures are commodities subject to the unchanging laws of supply and demand, so, in the same way, money and credits are commodities subject to the same unvarying laws, but far more intensely; for while bulky merchandise is not always immediately transferable upon demand, money and credits are so liquid as to be transferable by telegraph all over the world. It follows therefore that such "concentration" as exists in New York City (except that caused by our archaic banking system already alluded to) is due simply to the flow of demand and supply. Internationally likewise, when the demand for money and credit in Europe exceeds that in America, gold is drawn by export from New York to the other side.

We lay especial stress upon this point of economic rule, for the reason that not only the Resolution (H.

Res. 504) under which your Committee acts, but many questions to witnesses, indicated a belief that for their own selfish ends certain men, or a group of them, have succeeded in transcending the laws of supply and demand (which operate all over the world) and in establishing new economic laws. We venture to point out that, since the beginning of organized industry and commerce covering more than two centuries in England, France and Germany and one hundred years in America, men never yet have succeeded in over-riding economic law; and further that such an achievement is impossible, even though one were willing to attribute sinister motive to the leading men of business in the chief cities of this country.

AN UTTERANCE ALARMING TO THE PUBLIC

Still dwelling upon this subject, we refer to the language of the Preamble which reads: "Whereas it has been further charged and is *generally believed* (the italics are our own) that these same groups of financiers x x x are enabled x x to regulate the interest rates for money; to create, avert and compose panics, etc." Here is a specific suggestion of a novel economic theory, the publication of which cannot fail to create prejudice throughout the country among many citizens, who fail to reflect that the factors which determine interest rates are not local in their source, but are world-wide, being determined and—owing to the freedom of international exchange—being regulated by the average demand for credit throughout the world's

money markets. If any one man or group of men had the ability and resources —which they have not—to withhold credits in any one market like New York, the situation would ordinarily be promptly relieved by the automatic inflow of credits from some altogether foreign source. The factor which intensified the distressful conditions in October, 1907, was that all the world's markets were, and—during a year previous—had been suffering from an excessive shortage of money which, as has many times been pointed out by economic observers here and abroad, was because of extraordinary business " booms " in this country, Great Britain and Germany, as well as adventitious and enormous wastes of capital such as had been caused by the San Francisco fire and the Russo-Japanese war. In countries other than the United States, the stress of October, 1907, due to high money rates and financial disturbance, was relieved by the operation of banking systems devised by experience to cope with precisely such conditions; whereas in this country, owing to its weak banking system, acute disturbance was greatly prolonged and caused infinite distress.

THE PANIC OF 1907

Our hesitation to describe in such detail these obvious causes for the panic of 1907 has been overcome only by reason of the extraordinary statement in the Congressional resolution above quoted, and by the report to us that an appreciable portion of the community

has come to believe, from this statement, from the authorized interview given out by one of your associate counsel upon his retirement from your service, and from other similar statements that in large measure the panic of 1907 was actually due to the machinations of certain powerful men. We regret that a belief so incredible, so abhorrent and so harmful to the country should for a moment have found lodgment anywhere. And we welcome your invitation as an opportunity for us to state that, to the extent of our observation and experience, there is not even a vestige of truth in the idea that, in whole or in any part—the financial convulsion of 1907 was brought on through the design of any man or men.

No one will deny that men frequently are selfish, ambitious and reckless, but in order to sustain the theory that the panic of 1907 was "engineered", one must attribute to the "engineers" not only the power, but some motive for their assumed achievements. And by no process of reasoning can such motive be imagined, because of the fact that the men possessing even a fraction of the influence and resources attributed to them always are the ones holding the largest amounts of fixed investments which, by disturbed financial conditions, always suffer most severely. It is a fact that those individuals, private bankers and banks to whom alone apparently, by the language of the Preamble, is attributed the power "to create, avert and compose panics", were the ones to suffer most by the severe shrinkage in

security values, such losses—as the public records will in many cases show—running into many millions of dollars. It is impossible, therefore, to imagine a motive on the part of such persons as would lead to a campaign of self-destruction.

WHO THE HEAVIEST LOSERS WERE

Furthermore, our observation was that such individuals and corporations as were fortunate enough, when the panic was raging and when security prices were at their lowest, to hold any considerable amount of liquid resources, invariably devoted such resources to the aid of the weaker members of the community and deliberately refrained from putting their funds into low-priced securities for the purposes of profit.

It has often been observed that Mr. Morgan aided actively and effectively in the efforts to "compose" the panic of 1907. Such aid as he was able to render to the situation in New York at that time was due, we believe, simply to his ability in securing the prompt co-operation of many divergent minds which represented strong, independent banks. The same kind of service always is to be commanded in this country's emergencies.

If we have dwelt with more circumstance than perhaps your judgment approves upon these features of the Preamble, it is because we believe that the whole frame-work and language of the Congressional resolution under which you are acting implies a con-

ception impossible in sound theory, and wholly impossible in practice; such theory being that a comparatively small group of men, chiefly centred in New York City, can and do obtain such complete mastery over the financial machinery of one hundred millions of independent people that they have power to cause this whole country incalculable distress, or as the Resolution puts it: "have wielded a power over the business, commerce, credits and finances of the country that is despotic and perilous and is daily becoming more perilous to the public welfare."

AN ECONOMIC IMPOSSIBILITY

For the maintenance of such an impossible economic theory there have been spread before your Committee elaborate tables of so-called, interlocking directorates from which exceedingly mistaken inferences have been publicly drawn. In these tables it is shown that 180 bankers and bank directors serve upon the boards of corporations having resources aggregating twenty-five billion dollars, and it is implied that this vast aggregate of the country's wealth is at the disposal of these 180 men. But such an implication rests solely upon the untenable theory that these men, living in different parts of the country, in many cases personally unacquainted with each other, and in most cases associated only in occasional transactions, vote always for the same policies and control with united purpose the directorates of the 132 corporations on

FALLACIOUS STATISTICS PRESENTED

which they serve. The testimony failed to establish any concerted policy or harmony of action binding these 180 men together, and as a matter of fact no such policy exists. The absurdity of the assumption of such control becomes more apparent when one considers that on the average these directors represent only one quarter of the memberships of their boards. It is preposterous to suppose that every " interlocking " director has full control in every organization with which he is connected, and that the majority of directors who are not " interlocking " are mere figure-heads, subject to the will of a small minority of their boards.

Perhaps the greatest harm in the presentation referred to lay in the further unwarranted inference, to which has been given wide publicity, that the vast sum of $25,000,000,000. was in cash or liquid form, subject to the selfish use or abuse of individuals. Such an idea excites the public mind to demand the correction of a fancied situation which does not and, in our belief, never can exist.

DECENTRALIZATION THE RULE

In like manner an endeavor has been made to show, not by means of exact statistics which alone can tell the story, but rather through disjointed testimony obtained in the shape of replies to hypothetical questions that New York is far outstripping the rest of the country in comparative banking resources. Precisely the contrary is the case. The reports of the Comptroller of the Currency show not

only that there has been no such tendency here, but that, for some time, New York's proportion of the country's banking capital and resources has been declining. The banking resources of forty-one (41) other States have increased since 1900 more rapidly than they have in New York State; and, whereas in 1900 New York City Banks represented 23.2 per cent. of the banking resources of the United States, now, as pointed out in Mr. Davison's statement, they represent only 18.9 per cent. of such resources.

This striking tendency toward a greater and greater diffusion of American banking is illustrated further by the fact that between 1900 and 1912 the number of independent banks in the country has, according to the best reports obtainable, increased from 10,378 to 25,160, or by more than 140%, while the population increased by less than 25% in the same period. Here is complete evidence of a tendency operating to-day toward the decentralization of banking facilities.

INCOMPLETE AND MISLEADING FIGURES

Other evidence was adduced before your Committee from which the inference was sought to be drawn that during the autumn, when interest rates on "call" loans in New York are likely to be high, interior banks were in the habit of withholding money from their local customers, who needed it for agricultural and mercantile operations, and of sending it to New York to be loaned against Stock Exchange collateral. The evidence on this point was incomplete

and misleading. No attempt whatever was made to demonstrate whether the *total* amount of funds in New York, belonging to interior banks, usually rises or falls with the rise and fall of "call" interest rates in the autumn in New York. As a matter of actual fact the totals of such interior funds almost invariably fall as the autumn rates rise. At every such season New York institutions lend, as they ought equitably to do, large sums to their interior correspondents for crop-moving and other purposes. For instance as to the season just past, the amount of money being loaned, as of November 15, 1912 to outside institutions by the eight largest New York banks cultivating this business is estimated as approximating upwards of $80,000,000.

Yet, although such adequate evidence was readily available, the Committee's experts who testified on this point gave to you and to the public figures which, in their deductions, were absolutely incomplete and incorrect.

In offering to you such criticisms as we have upon the incompleteness of certain features of the testimony laid before you, we once more beg that you will not consider us as lacking in respect to your Committee, or as out of harmony with its desires to examine certain features which, as to the financial development of this country, have attracted widespread attention. We readily concur with you that many highly legitimate subjects of value to the public interest have been developed. One of these, to which we call particular attention, has

been the steady growth in the size of banks through consolidation or increase of capital. Such growth in the size of banks in New York and Chicago has frequently been erroneously designated before your Committee as "concentration," whereas as we have hitherto pointed out the growth of banking resources in New York City has been less rapid than that of the rest of the country. But increase of capital and merger of two or more banks into one institution (with the same resources as the aggregate of the banks merging into it) has been frequent, especially since January 1, 1908.

DEMAND FOR LARGER BANKS

These mergers, however, are a development due simply to the demand for larger banking facilities to care for the growth of the country's business. As our cities double and treble in size and importance, as railroads extend and industrial plants expand, not only is it natural, but it is necessary that our banking institutions should grow in order to care for the increased demands put upon them. Perhaps it is not known as well as it should be that in New York City the largest banks are far inferior in size to banks in the commercial capitals of other and much smaller countries. The largest bank in New York City today has resources amounting to only three fifths of the resources of the largest bank in England, to only one fourth of the resources of the largest bank in

FAR BEHIND EUROPE

France, and to less than one fifth of the resources of the largest bank in Germany. As the Committee is aware, in New York City there are only three banks with resources in excess of $200,000,000., while there are ten such institutions in London, five in Berlin and four in Paris.

NOT EQUAL TO COUNTRY'S NEEDS

It is also perhaps not sufficiently recognized that, even as it is, American banks have not fully kept pace with the development of American business. Hundreds of the financial transactions of to-day are so large that no single bank commands sufficient resources to handle them. This is especially true with respect to the great public utilities which are essential for the development and welfare of the community. Even our largest banks are seldom able separately to extend the credit which such undertakings require, no one national bank being permitted by law to loan in excess of 10% of its capital and surplus to any one individual or concern. When it is remembered that literally hundreds of corporations in this country are now obliged to borrow annually sums of a million dollars and upwards apiece, it is obvious that the size of our banks must grow to keep pace with this demand.

Yet as to this natural development, the causes for which it is of vital interest to the whole country to realize clearly, many of the inquiries directed to your witnesses were of such a nature as to raise in the minds

of an interested public a doubt as to whether, after all, this effort by banks to keep pace with growing business were not a scheme of a designing group of men, building up enormous institutions in order (we quote here again from House Resolution No. 504) " to augment their " (" these groups of individuals ") power over the finances of the country and to control, etc. etc." We submit for your consideration the opinion that, if time had served you, far more adequate information, including instructive statistics, might have been provided on this question for your Committee.

GREAT ISSUES TO BE FINANCED

Likewise, with respect to the tendency to co-operation among banks, noted especially since the panic of 1907, we believe that further statistics of interest on this point can be made available, such facts going to show first, that since 1907 co-operation has been more active by reason of the lesson which banks in all large cities then learned that, for self-preservation, they could not—as is possible in other countries—rely upon a strong and elastic banking system, but must gain such protection by concurrent action; and second, that such co-operation is simply a further result of the necessity for handling great transactions. There are not a few railroad bond issues each exceeding $100,000,000; the American Telephone and Telegraph Co. recently has announced one of $70,000,000. The two traction companies operating the subways in Greater New York

are planning to bring out aggregate issues of $220,000,000. The Attorney General's recent approval of the Union Pacific settlement, calls for a single commitment on the part of bankers of $126,000,000. So that, if transactions of such magnitude are to be carried on, the country obviously requires not only the larger individual banks, but demands also that those banks shall co-operate to perform efficiently the country's business. A step backward along this line would mean a halt in industrial progress that would affect every wage-earner from the Atlantic to the Pacific.

COOPERATION NECESSARY FOR COUNTRY'S GROWTH

We lay perhaps especial stress upon this point, because of what seemed to us a readiness upon the part of your Committee to adopt the idea that in such co-operation by bankers there lies the germ of something sinister and dangerous, and that, to quote once more from House Resolution No. 504, such co-operation has been developed to the extent that, "these groups of individuals" can "prevent competition with the enterprises in which they are interested, to the detriment of interstate commerce and of the general public."

Nothing else certainly could be more germane to an investigation like that of your Committee than an inquiry as to whether, through any means exerted by banks or bankers, interstate commerce is being restrained. But as establishing or even suggesting such a

contention, we have been able to find no testimony whatever upon the records of your Committee. If any such evidence is available, we believe it important that it should be produced. So far as our observation and experience go, we can make the positive statement that, except under unfavorable money market conditions, we have never heard of any responsible and deserving individual, firm or corporation being unable to secure ample credit. The House Resolution No. 504, including its Preamble, contains no less than five separate references to the possible "prevention," "suppression," elimination or absorption of "competition," through the activities of certain individuals. Wide publicity has been given to this Resolution under whose authority your Committee has acted and, in the absence of any proof whatsoever to support the belief that there has been a supression of corporate competition, we venture to hope that this idea, most insidious and harmful in its effect upon the mind of the country at large, will in your report be definitely dispelled. In a matter of such great moment to the prejudices of our citizens, we suggest, with great respect, that a positive statement from your Committee that no evidence has been adduced on this vital question should be given publicity as wide as that received by the Resolution.

FREE COMPETITION THE RULE

Testimony, on the other hand, going to show not a suppression, but a development of trade throughout

the country might have been of value, as exhibiting a natural explanation of many of the financial practices which your Committee has questioned. Many questions were asked as to the wisdom in having representatives of private banking houses sit upon the boards of corporations, whose securities the same bankers frequently offer for sale. This practice which has been in vogue abroad, ever since the creation of limited companies, has arisen not from a desire on the part of the banker to manage the daily affairs of the corporation or to purchase its securities more cheaply than he otherwise could; but rather because of his moral responsibility as sponsor for the corporation's securities, to keep an eye upon its policies and to protect the interests of investors in the securities of that corporation. For a private banker to sit upon such a directorate is in most instances a duty, not a privilege. Inquiry will readily develop the fact that the members of the leading banking houses in this country—and it was the leading houses only against which animadversions were directed—are besought continually to act as directors in various corporations, whose securities they may handle, and that in general they enter only those boards which the opinion of the investing public requires them to enter, as an evidence of good faith that they are willing to have their names publicly associated with the management.

RESPONSIBILITY OF BANKERS

Yet, before your Committe, this natural and eminent-

ly desirable relationship was made to appear almost sinister, and no testimony whatever was adduced to show the actual working of such relationships. It is easy to overlook the fact that practically all the railroad and industrial development of this country has taken place, initially through the medium of the great banking houses. Were it not for the opportunities provided by these houses, it is difficult to imagine how the great transportation systems and industrial plants of the country could have been created. Many persons fail to realize the variety of the functions performed by these banking houses. If a transcontinental railway system, building up the wheat farms of the west and affording employment to thousands of workmen, desires to obtain $100,000,000. for purposes of still further development, it goes to some great banking house or institution for a market for its securities. The bankers make expert investigation of the property, agree to buy the bonds and thus to make possible a great and important development two or three thousand miles away. Next the banking house serves the investing community. Thousands of investors are seeking sound securities for their savings. They have neither the knowledge nor the opportunity for investigating a great railroad enterprise. They look to a banking house to perform those functions and to give its stamp of approval to that railroad's securities. In this manner

FUNCTIONS OF A BANKING HOUSE

the banking house fulfills a double duty to the community.

Another line of your inquiry, certainly pertinent to to the general subject, was as to whether "the marketing of the securities that from time to time have been issued by interstate railroads and industrial corporations has been by competitive bidding or otherwise." This question is of such importance that there must be general regret that the time of your Committee did not serve for the exhaustive study of the subject, which you undoubtedly desired, including testimony from enough diverse sources to show you the exact situation. On this matter we are pleased to submit certain considerations which, we are confident, are borne out by the facts: First, in general and over a period of time, the sale of such securities is invariably subject to the competition of market conditions. We have not heard of an instance where any corporation failed to secure the benefit of a price for its issues as excellent as conditions at the time warranted. Second, in most of the leading commercial States Public Service Commissions pass with great care upon the prices at which the securities of all transportation and public utility corporations are sold. Third, competitive bidding, in the sense of having railroad and industrial securities offered practically at public auction as in the case of municipal securities, is seldom or never practised.

HOW SECURITIES ARE HANDLED

The reasons against such practise are plain. Such corporate issues have neither the security, the steadiness nor the general confidence possessed by municipal bonds, and while in good times it is possible that they might be subscribed for at public auction, in bad times there would be no one to bid for them. It is practically inconceivable that a municipality should go bankrupt and make permanent default of its obligations. Quite otherwise is the case with railroad or industrial corporations. Should these latter appeal directly to the proverbially timid investor there can be little question that, in times of stress, support would be totally lacking. We should have the spectacle of numberless corporations failing for lack of strong financial or banking support.

TO SELL SECURITIES BY AUCTION IMPRACTICABLE

The enlisting of such support, in the shape of fiscal agencies or of other close relations with bankers, appears sound both in principle and practise. For their ultimate success, great enterprises depend almost as much upon wise financial counsel as upon technical management. A great business, well conceived as to interior organization, frequently goes on the rocks for failure to obtain broad and strong financial guidance. Any man undertaking to build a cotton mill, perfectly appointed with modern machinery and technical skill, who should rely upon obtaining the necessary funds by a public appeal to investors would be deemed reckless. Yet such a principle

is precisely that involved in the suggestion that corporations should refrain from making financial arrangements and should rely upon securing their money from the offer of their securities at public auction. Furthermore, as has been hitherto pointed out in this memorandum, a large factor which inspires confidence in the investor and leads him to purchase some specific security is the knowledge that banking houses of good standing have investigated that particular security and themselves have underwritten or have invested in it.

Still another consideration inducing large corporations to appoint fiscal agents is that frequently such corporations are obliged to undertake operations of such magnitude and complexity over a series of years, that they must invoke uninterruptedly the best financial advice obtainable. An operation like that of the Pennsylvania and the Long Island Railroads in tunnelling respectively the Hudson and the East Rivers, and building an enormous terminal in the heart of New York, involved the expenditure of say $200,000,000. and, from inception to completion, occupied the best part of a decade. The unwisdom of embarking upon such a development and of relying through good times and bad, panic periods and otherwise, upon the sale of $200,000,000. bonds, by auction to the public, could hardly be characterized, even if it were conceivable. Another example might be mentioned in the irrigation enterprises of the West. It is

FINANCIAL ADVISERS A REQUISITE

estimated that there has been expended in such development not less than $200,000,000. How far would such development have gone, how far would those regions have been opened to agriculture had dependence for obtaining that great sum been placed upon the nearby communities, or even (by means of public auction) upon investors in New York or Chicago who know little of the safety of such investments. Persons who decry the close relations existing between the bankers and the great transportation and industrial businesses fail to perceive that, as individuals require the advice of lawyers and physicians, so great enterprises require financial diagnosticians who can give counsel as to the world's investment markets, as to what form of securities is best adaptable for any given time, as to what financial policy for the corporation is best calculated to command the confidence and the steady support of the investor.

OFFICERS ARE INDEPENDENT

One phase of a far different feeling at present to be noted in America, finds repeated expression in the Preamble and Resolution to the effect that financial groups have "control over the aforesaid railroads, industrial corporations, and moneyed institutions, etc.;" that such an influence is exerted powerfully over the officers and management of such institutions, and that such influence is exerted primarily for the benefit of the individuals. Persons that accept such a belief must fail to realize that no corporation

could long survive if the operations of the corporation and the freedom of its officers were interfered with by directors desiring to serve selfish interests. The success of an enterprise depends largely upon the ability and zeal of its officers exerted independently of any interest except that of the enterprise itself. Any attempt by directors working to their own ends would result either in the ruining of the business, were the officers to yield up their independence; or in the prompt resignation of such officers if they were men of character. And since when, it may be asked, has the ownership of stock meant the ownership of men?

PRIVATE BANKERS AS DEPOSITARIES

A distinction which one line of your inquiry sought to establish was that as to the relative safety of banks and banking houses as depositaries. Your inquiries on this point, although purely tentative and without attempt to cite any records which might bear upon the subject, left the impression that you doubted the wisdom of permitting corporations to select, as depositaries for their funds, private bankers as well as banks. This is a matter of less grave concern to the public than many points having to do with the fundamental character of our banking laws, and our opinions on this particular topic are likely to be accepted with considerable reserve. Yet it may be of value to inquire whether experience offers any data going to show that incorporated banks have proved themselves in structure or in practise, more impregnable

from failure than private banks. Incorporated banks possess, from the depositor's point of view, such safeguards as are extended by existing methods of state supervision. And the National Bank Act wisely provides that, in the event of a bank's failure, the shareholders shall be liable to the extent of twice the amount of the capital stock. With private banks, however, the liablity for the funds of depositors is unlimited, and the total private means of each partner are subject to the firm's obligations. From the early days of banking all over the world until about seventy-five years ago, the rule was that the community used private bankers as their chief depositaries. Then came in, though not without great public opposition, the plan of creating banks as stock corporations with the very purpose of limiting the risks of the owners of these banking corporations. Strong as such institutions have proved to be, it may be said with some reason that the common law which requires that, if any private banking house is forced to suspend, the private fortune of every member of that firm shall be utterly swept away before a depositor suffers the loss of a penny, is unquestionably a factor tending towards prudent and conservative management. In face of the available records, showing a considerable number of suspensions among incorporated institutions in New York City, as the result of the 1907 panic, we can recall no instance whatever of the similar sus-

UNLIMITED LIABILITY A SAFEGUARD

pension of any private banking house handling corporate deposits.

In view of these facts, we submit that in this matter it would be wise to secure evidence from all large cities, bearing upon the benefits or the actual dangers shown by experience, before proposing any law, the effect of which automatically might be to deprive interstate corporations from exercising their best judgment as to where they may prudently extend credit. In essence, if a corporation is to be prohibited from extending a credit of $100,000 to a banking house which, it has reason to believe, can return that credit upon demand, why should the law not be invoked to prevent it extending merchandise credit of similar amount to some solvent customer?

As the final point of this memorandum, we venture to submit the consideration that in a strong public opinion, such as exists in this country, there lies the greatest safeguard of the community—always assuming that Congress will evolve a basic system of banking which is scientific and sound—as at the present time, ours admittedly is not. The public, that is the depositors, are the ones who entrust bankers with such influence and power as they today have in every civilized land, and the public is unlikely to entrust that power to weak or evil hands. Your counsel asked more than one witness whether the present power held by bankers in this country would not be a menace if it lay

THE FORCE OF PUBLIC OPINION

in evil hands. Such an inquiry answers itself. All power, physical, intellectual, financial or political, is dangerous in evil hands. If Congress were to fall into evil hands the results might be deplorable. But to us it seems as little likely that the citizens of this country will fill Congress with rascals as it is that they will entrust the leadership of their business and financial affairs to a set of clever rogues. The only genuine power which an individual, or a group of individuals, can gain is that arising from the confidence reposed in him or them by the community. Every town, large or small, seems to choose a limited number of men (merchants, manufacturers, lawyers and bankers) to represent it in the management of its chief, local industries. Those men are entrusted with such heavy responsibilities because of the confidence which their records have established, and only so long as their records are unblemished do they retain such trusts.

These are axioms which it seems almost idle to repeat. They apply to all business, but more emphatically, we believe, to banking than to any other form of commerce. To banking the confidence of the community is the breath from which it draws its life. The past is full of examples where the slightest suspicion as to the conservatism, or the methods of a bank's management, has destroyed confidence and drawn away its deposits over night. Much, therefore, may be left to the instinct and the force of

CONFIDENCE THE LIFE OF BANKING

public opinion; and finally, in urging upon you once more the establishment of a sound banking system, we venture to question the wisdom of engrafting upon such new system many special provisions, designed to guard against particular evils but which, being restrictive in their nature, are likely so to hedge about the business of banking as to curtail severely the country's development. We believe that, with a scientific banking system firmly established, many features in our present situation, perhaps deemed objectionable by you, will of themselves disappear; and that this country will enjoy the experience of other countries which, with nothing like the same amount of banking statutes in force as we have, are yet immeasurably freer than America from banking failures, and from those periodic financial disturbances which bring misfortune to rich and poor alike and, except for which, these United States today undoubtedly would be in enjoyment of a political and national prosperity far surpassing any that has been known in the world's history.

GENERAL, NOT SPECIAL, LEGISLATION NEEDED

Respectfully submitted,

(Signed) J. P. MORGAN & CO.

New York City,
February 25, 1913.